

## Message Text

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ORIGIN EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 NEA-10 ISO-00 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01

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EB/IFD/ODF:NRIEGG

ARA/EPC:RSTERN

AF/ESP:RDUNCAN NEA/RA:MONTGOMERY

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R 100125Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY BELGRADE

AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY CAIRO

AMEMBASSY ISLAMABAD

AMEMBASSY KINGSTON

AMEMBASSY KINSHASA

AMEMBASSY LIMA

AMEMBASSY LUSAKA

AMEMBASSY MEXICO

AMEMBASSY NEW DELHI

AMEMBASSY YAOUNDE

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E.O. 11652:N/A

TAGS: EFIN, ENRG

SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT

REF: STATE 275435

1. IN GEARING UP FOR THE 1976 SERIES OF MEETINGS BY THE FOUR CIEC COMMISSIONS, IT WOULD BE USEFUL TO HAVE A GENERAL EMBASSY ASSESSMENT OF THE IMPACT OF HIGHER OIL PRICES ON THE ECONOMIC DEVELOPMENT OF THE TWELVE NON-OPEC, G-77 COUNTRIES PARTICIPATING IN THE CIEC EXERCISE. ACTION REQUESTED: YOUR ANALYSIS NO LATER THAN JANUARY 21, AND SOONER IF POSSIBLE.

2. WE ARE INTERESTED IN YOUR GENERAL ASSESSMENT OF THE RELATIVE IMPACT OF HIGHER OIL PRICES ON THE HOST COUNTRY'S BALANCE OF PAYMENTS, BOTH ON THE CURRENT ACCOUNT AND THE FINANCING OF THE CURRENT ACCOUNT. IN THIS CONTEXT, THE ESTIMATED OIL IMPORT BILL IN 1972, 1973, 1974 AND 1975 (C.I.F. OR F.O.B.) WOULD BE HELPFUL, ALONG WITH THE CORRESPONDING IMPORT VOLUME FIGURES. IF THE STATISTICAL PART OF YOUR ANSWER TO THIS QUESTION HAS ALREADY BEEN REPORTED RECENTLY (FOR EXAMPLE, IN REPLYING TO REQUEST IN REFTEL), POSTS MAY AVOID SOME DUPLICATION BY REFERENCING THEIR EARLIER MESSAGES.

3. OF GREATER IMPORTANCE, HOWEVER, IS YOUR GENERAL ASSESSMENT OF THE IMPACT OF HIGHER OIL PRICES ON THE DOMESTIC ECONOMY IN 1974 AND 1975 AND THE LIKELY CONTINUED IMPACT IN 1976 AND BEYOND. (LATTER IS IMPORTANT BECAUSE SOME COUNTRIES HAVE ONLY REACTED WITH A SUBSTANTIAL LAG TO CHANGED ECONOMIC CIRCUMSTANCES, CUSHIONING THE INITIAL SHOCK WITH FOREIGN BORROWINGS AND DRAWDOWN OF RESERVES RATHER THAN BASIC ADJUSTMENT POLICIES.) WE RECOGNIZE IT IS MOST DIFFICULT TO PINPOINT THE PRECISE EXTENT TO WHICH HIGHER OIL PRICES HAVE AFFECTION THE MACROECONOMIC AGGREGATES OF GROWTH, INFLATION AND UNEMPLOYMENT. DOMESTIC ECONOMIC POLICIES AND THE LIMITED OFFICIAL USE

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INFLUENCE OF OTHER EXTERNAL FACTORS, SUCH AS THE SLOWDOWN IN ECONOMIC ACTIVITY IN FOREIGN MARKETS AND INFLATION ABROAD (BOTH OF WHICH IN TURN REFLECT HIGHER OIL PRICES), CLOUD THE PICTURE. RECOGNIZING THESE LIMITATIONS, IT WOULD STILL BE USEFUL TO HAVE YOUR GENERAL PICTURE OF WHAT HIGHER OIL PRICES HAVE MEANT FOR YOUR HOST COUNTRY'S ECONOMY. PLEASE INCLUDE INFORMATION WHERE AVAILABLE ON SECTORAL DEVELOPMENT PROJECTS (FOR EXAMPLE, PETROCHEMICAL

FERTILIZER PLANTS) WHICH MIGHT HAVE HAD TO BE SCALED DOWN OR SHELVED AS A RESULT OF HIGHER OIL PRICES. ALSO PLEASE REFERENCE EARLIER MESSAGES WHERE THIS WILL AVOID DUPLICATION OF EFFORT.

4. WE ARE INTERESTED NOT ONLY IN YOUR BEST GENERAL ANALYSIS OF THE PAST AND PROSPECTIVE IMPACT OF HIGHER OIL PRICES ON THE DOMESTIC ECONOMY IN THE HOST COUNTRY, BUT ALSO IN WHAT YOU THINK (WITHOUT SPECIFICALLY APPROACHING HOST GOVERNMENT) IS THE PERCEPTION OF THIS IMPACT BY THE GOVERNMENT AND GENERAL POPULATION. TO WHAT EXTENT DOES AVAILABILITY OF DOMESTIC OIL COLOR THIS PERCEPTION? IT WOULD ALSO BE USEFUL TO KNOW THE EXTENT TO WHICH IT IS REALIZED THAT HIGHER OIL PRICES HAVE EXACERBATED THE RECESSION AND INFLATION PROBLEMS OF THE INDUSTRIALIZED COUNTRIES AND THUS INDIRECTLY ALSO AFFECTED THE DEVELOPING COUNTRIES BY REDUCING THE DEMAND FOR THEIR EXPORTS AND RAISING THE PRICES OF WHAT THEY IMPORT. KISSINGER

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